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monetary entanglements." Tables and charts, with text, illustrate: the gold stock of the United States; expansion of federal reserve note circulation; relation of federal reserve net deposits to note liability; imports and exports of gold; gold production of the world; increased cost of gold-mining supplies; and gold consumption in manufactures and arts.

Prices and wages in India. Thirty-fourth issue. (Calcutta. 1919. Pp. v, 278. 2 Rs. or 3s.)

Proceedings of the fortieth annual meeting of Building Association League of Illinois. (Chicago: Am. Bldg. Assoc. News Co. 1919. Pp. 132.)

Review of the silver situation for 1919. (New York: Handy & Harman. 1920. Pp. 21.)

Three graphic tables showing the course of exchange between Rotterdam on the one hand and London, Paris, and Berlin on the other, from 1913 to December 31, 1919. (Rotterdam: Gebroeders Chabot. 1920.)

Trust companies of the United States. 1919 edition. (New York: U. S. Mortgage & Trust Co. 1920. Pp. 587.)

This is the seventeenth annual compilation of the returns of trust companies, embracing 2173 institutions. Reserves show a gain for the year of nearly 19 per cent. The returns are listed by states and cities, and give the balance sheets, dividend rates, and quotations of company stock.

Public Finance, Taxation, and Tariff

Income Tax Procedure, 1920. By ROBERT H. MONTGOMERY. (New York: The Ronald Press Company. 1920. Pp. xii, 1,282. \$6.00.)

Excess Profits Tax Procedure. By ROBERT H. MONTGOMERY. (New York: The Ronald Press Company. 1920. Pp. v, 351. \$3.00.)

Montgomery's *Income Tax Procedure* for 1918 and that for 1919 were reviewed at length in preceding issues of the AMERICAN ECONOMIC REVIEW.¹ Yet the two new volumes for 1920 must also receive attention. Indeed, when we contemplate the many weaknesses of the income tax law, necessitating new interpretations and ultimate amendment, or look over the mass of new regulations and rulings which are issued every year, we may confidently expect a new and much revised manual to appear each year for some years to come. There are millions of tax returns on file which have not yet been examined and millions more are being filed each year.

¹ Vol. VIII, p. 380; vol. IX, pp. 354, 604.

The examination of these returns will bring a constant stream of new rulings.

Although we did not have a new tax law this year there are abundant changes in the law nevertheless. The 1918 law, as it was called, although it was not passed until 1919, was enacted so late and so close to the time for filing tax returns last year that the regulations hurriedly gotten out to meet the urgent demands of taxpayers were far from final and complete. In addition, the four older brothers of the law, the tax laws of 1909, 1913, 1916 and 1917, are all very much alive as shown by their constant capacity to get into mischief. The interpretation of all these laws by the courts and by the department and their application to new cases amount almost to a new body of law since last year.

Since the income tax and its wicked partner the excess profits tax depend upon self-assessment, almost entirely, the taxpayer has great need of such a manual as the one before us. The taxpayer is almost sure to go wrong anyway in writing out his own tax warrant, but with the help of Montgomery he will feel safer than he otherwise would. Probably most taxpayers, not having heard from their returns filed in years past, are resting happily in the thought that "silence gives consent." If so, they may receive a rude awakening. The returns of 1917 incomes are not all examined yet. To be sure, a large part of the returns may never be examined; for out of 4,125,000 returns filed for 1918 incomes 3,500,000 are to be left in the hands of the local collectors, where they may possibly stay undisturbed forever, although they may be overhauled at any time. Yet with 625,000 returns of that year to be examined, many of which will open new questions, a great many taxpayers are concerned to learn all they can of the law.

The new work is much fuller than its predecessors, and yet much of the general historical material is cut out. It is, if anything, more concise and straightforward than before. It speaks to the bookkeeper and accountant in more positive terms and with less argument. The unavoidable references to "former procedure" are now in footnotes and are less annoying than they were in last year's issue.

In anticipation of the speedy repeal of the excess profits tax, all matters relating specifically to that tax are placed in a separate volume. It is hard to see why this expectation should not come true. As a permanent tax the excess profits tax sins glaringly against each and all of Adam Smith's famous canons of tax-

ation. (1) It is *not* uniform. (2) It is arbitrary. (3) It is most *inconvenient* in form. (4) It *does* take or keep more money out of the pockets of the people than it brings into the treasury. As a tax for one year levied without notice on war profits of a preceding year such a tax has some merits. But as a permanent tax or even as a twice repeated tax an excess profits tax is without social or fiscal justification. Even as a one-year war expedient it must, to succeed, be sprung like the old countryside surprise party, before the victims have time to dress for it. Its fundamental concept is that it falls on the *abnormal*. Yet who can define the *normal*? Congress has said in effect that 8 per cent of invested capital is a normal fair return, and has defined invested capital as the amount of money put into a business. To take a somewhat extreme case, any one familiar with the oil fields knows that the *normal* return for putting \$100,000 into a hole in the ground is anywhere from much less than nothing up to many millions of dollars. The chances that it would be exactly \$8,000 are mighty small in that wide range of possibilities. By much persuasion Congress was led to see that gold mining with a fixed price of \$20.66 an ounce for its product could never make an *abnormal* or excessive profit no matter how rich a strike was made. Congress also allowed a mining prospector or oil wildcatter to have his successful find valued as of date of discovery. This cut loose from money spent and valued invested capital as it should be valued, that is, according to the earnings. It is *not* what you put into a business that determines the profit, but it is the profit that determines the value of what you put in. In this law the cart is always before the horse and the shadow is expected to cast the substance. As a matter of fact, too, every taxpayer who worked out his accounts according to the logic of the law and the regulations could so adjust his claims for obsolescence, depletion, and amortization that he would come out exactly at the legal normal profit or very close thereto and have no tax or a small one to pay. Only by keeping the mass of taxpayers in ignorance of the logic of the law was it possible to get the large revenues obtained. As Montgomery points out in his preface to the volume on *Excess Profits Tax Procedure*, some taxpayers get relief which others entitled thereto do not get through their own ignorance.

A thing that is abnormal is so because it defies logic, and since problems can be solved only by logical processes Montgomery is right when he says: "I know the excess profits tax problems are

insoluble." The Secretary of the Treasury said in December, 1919, that the tax "is added to the cost of production" and shifted. Little as we really know about the shifting and incidence of taxation we do know that an unequal tax is likely to be shifted and that a tax which it is expected will be soon repealed, if also unequal, is almost sure to be shifted. That increase in production tends to stop just at the point where the tax would otherwise be incurred is a common observation.

The chief change in the excess profits tax is the removal of the "war profits" part so-called, or bracket three, and the reduction in the rates of the first two brackets. This is a simplification for which taxpayers are distinctly grateful.

Returning to the income tax volume, we find the manual rearranged in what may be a more permanent form unless the income tax law be completely amended. Such an amendment we can hardly expect nor is a complete one necessary. Where the law is most deficient is in the administrative procedure. There is no official assessment, and no assessment roll whatever. There is no review of assessments. Spies and inspectors with most of the obnoxious powers of the notorious tax inquisitors make nearly all the assessment and do most of the reviewing that is done, with occasional appeals to Washington, a recourse available to the most wealthy. Taxes are paid on self-assessment on an individual warrant written out by the taxpayer himself on a scrap of paper called a "form for return." There is no way of knowing whether the collector puts the return in the waste basket and the money in his pocket, or files the return to gather dust on his shelves and sends the money to Washington. The system is a marvelous test of the collectors' honesty. The inevitable scandal of fake taxes and misappropriation has not yet broken out.

Another defect in the law is the failure to establish a proper system of refunds and abatements for excessive taxes collected, commented on in the *AMERICAN ECONOMIC REVIEW*, in the December, 1919, issue (p. 771).

Montgomery still rides his hobby of a sharper differentiation between earned and unearned incomes. The drop in the normal rate for individual to 8 per cent while that on dividends only dropped to 10 per cent is in accord with his idea. But he seems to underestimate entirely the fact that our tax system, taken as a whole, makes a bigger difference between earned and unearned incomes than is made in any other country except possibly Canada. For,

almost all the state and local taxes fall on the sources of unearned income and their burden is several times larger than the income tax itself. His suggestion that the real estate tax be reformed (reduced) overlooks the importance of local functions. The schools, for example, need more, not less, money. His recommendation of a system of averaging several years' incomes to lessen the extreme fluctuation of the tax, a system now indirectly applied to farmers though to a very small extent, is excellent.

Our tax is a tax on "gains and profits" as well as on income, and the difficulties involved where capital value increments are to be taxed have been admirably discussed in the book. In this respect the author anticipated the stock dividend decision.

The new rulings and regulations turn on fine distinctions and would require for their explanation or even statement here, far more space than is properly accorded to a review. For them the reader must consult the volume itself.

The new edition contains the New York income tax law with full details. It is argued that this is more than a local issue because many non-residents, corporations and others, are affected and because other states may be interested in similar legislation. But, while all that warrants a manual about the New York tax law, it hardly affects the man who wants only the federal and must therefore buy 117 pages of costly paper and print on the New York law or one who wants the New York law and to get it must buy over 1100 pages on the federal law.

The reprinting in full of the tax forms or blanks in the appendix is an extremely useful feature. These forms when loose are hard to handle and keep in order and yet one needs frequently to refer to them. The annoying complexity of the forms necessitated unfortunately the use of very fine print in the reproduction.

The department tries to discourage the taxpayer from seeking outside assistance by printing in the worksheet: "If you need assistance go to a deputy collector or to the collector's office. But first read instructions." We might add to that the advice to read Montgomery.

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NEW BOOKS

ADAMS, R. *Taxation in Nevada. A history.* (Reno: Nevada Historical Society. 1918. Pp. xiii, 199.)